U.S. Department of Agriculture
Office of the Secretary

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World Trade and Wheat

Secretary Bergland had looked forward to being with you tonight to review the developments of the past two years and to look a little into what the future holds for America's wheat producers.

But, as you know, he is in Washington to participate in one of the historic events of our time--historic both from the standpoint of world peace and security and the perspective of global agricultural trade--the visit of China's Vice Premier, Deng Xiaoping.

He did ask me to convey in person his deepest regrets that he could not be with you, and asked me to discuss with you in some detail one single subject which is of critical importance to each of you.

That, of course, is world trade in wheat and your part in it.

Ambassador McDonald addressed you this morning about the critical importance to America's farmers of successfully concluding the Multilateral Trade Negotiations (MTN).

I would add very little to the discussions you have had on the MTN, and I would add nothing to the expertise Al McDonald brought to you.

Remarks prepared for delivery by James C. Webster, Acting Director, Office of Governmental and Public Affairs, before the National Association of Wheat Growers, San Francisco, California, January 31, 1979

But I should say that we at USDA are delighted with the progress that he and Ambassador Strauss have made in carving out an MTN agreement with significant gains for U.S. agriculture.

I would like to confine my remarks to the subject closest to your hearts and your pocketbooks--world trade in wheat--specifically the proposed International Wheat Agreement, and how it can affect the individual wheat producer.

The United States has been involved in formal negotiations with both exporting and importing countries for some time, seeking an improvement over the largely consultative 1971 agreement.

These discussions received a new note of seriousness not quite two years ago when the United States made it clear that we were committed to reaching a successful, workable new wheat pact.

In fact, one of the most serious challenges which faced us when Secretary Bergland assumed office was the rapidly falling price of wheat. The memories of those early months of 1977 are probably still vivid with you.

We had scaled the dizzying heights of 1974 and 1975. We still had the bitter taste of embargoes on American farm exports. And we were beginning to see the opposite side of the coin of boom-and-bust prices.

In short, U.S. agriculture was being forced to adjust from scarcity to surplus without the workable kind of mechanism necessary to ease that adjustment.

Bob Bergland did two things almost immediately upon becoming Secretary of Agriculture.

First, using existing authority, he set up a farmer-owned grain reserve to deal with the already growing surplus.

The reserve has been a significant success. Even its early critics today give it credit for preventing total collapse in the price of wheat.

The second benefit of the reserve still is ahead of us. With more than 400 million bushels of wheat in the reserve, you and your fellow wheat growers--not the Commodity Credit Corporation--will earn the profit when the price of wheat goes up. I would like to underscore the phrase "<u>when</u> the price goes up" and make it clear that it's not "<u>if</u> the price goes up."

Working with his colleagues in President Carter's new Cabinet, the Secretary developed a positive and progressive policy aimed at obtaining a new wheat agreement.

Looking back over these two years, it can be said that four principles were developed to underlie our position in these negotiations.

The first was that an agreement had to work when the market is under stress, either from too much or too little. It had to have the kind of shock-absorber which would work during those years of bumper crops around the world. And it would have to have provisions to discourage the kind of price-cutting which might tend to render a more rigid agreement unworkable.

The second was a recognition that an agreement would have to contain a mechanism to tame the wild swings in prices which devastate the grower in years of abundant production but take a wretched toll from the poor and hungry when supplies are short. Simply translated, that means a reserve stock of sufficient quantity to help farm prices in the surplus years and provide enough food for consuming countries in the lean years.

Third, we recognized that the major attraction for U.S. producers would be an agreement which spread the burden of adjustment throughout the world. As it is today, the U.S. wheat grower and the U.S. taxpayer are the world's absorbers. Today, you bear far more than a fair share of the burden of adjustment. You don't consider that fair and neither do we.

And fourth, we recognized the special problems of the developing countries--of their hopes for greater self-sufficiency, of their particular needs for financial assistance to carry their share of reserve stocks. These issues were addressed in the Food Aid Convention and in special provisions of the Wheat Trade Convention.

These nearly two years of negotiations in Geneva and in London, and countless bilateral and smaller group discussions on the nuances of these issues, have been frustrating at times, difficult at times--and, for some of you and your elected leaders, of real concern.

But they have been fruitful years. You knew and we knew at the outset that it would be impossible for the United States to simply write a prescription and have the rest of the world swallow it. International negotiations don't work that way. It's tough give and take, and we have to give in order to get.

These negotiations have managed to narrow the scope of our differences with our trading partners and with other wheat exporting nations. Our initial disagreements have been eliminated, one by one, until the final differences now come down to four major areas:

First, the total size of the reserve stocks to be shared by the participating countries.

Second, each country's individual share of the total reserve stock.

Third, the "upper" price level which would trigger release of stocks from the reserve into the market.

And fourth, an adequate sized food aid program to deal with the extremely poor countries.

And so it stood a week ago Monday, when Tom Saylor led the U.S. team back to Geneva for the final three weeks of negotiations.

We approached this round of talks with optimism based on the certain understanding that such an agreement is clearly in the best interests of producers and consumers alike. And it most surely is.

And we went to Geneva with the firm resolve to reach agreement on the outstanding issues and to have a wheat trade agreement ready for submission to the Congress when the overall MTN package is ready to go.

Half way through that three-week session, I must report to you tonight that the outlook is not as optimistic as it was just a few days ago.

Quite frankly, there has not been substantial progress on clearing away these four points which remain in dispute.

This is not to say that we have abandoned hope for successful agreement. We continue to hope, and we will continue to work, toward that goal.

But there are certain issues on which we can move no further. One of these issues is the range of prices for acquisition and release of reserve stocks.

It would do us no good whatsoever--and indeed it would not serve either exporters or developing countries--to agree to a price band which did not recognize farmers' production costs.

Another is the size of the reserve. The United States has held firm to a total stock of 25-30 million metric tons, with the United States carrying 5 million tons of that. Others have suggested a reserve of half of that size.

But it is clear to us that a stock of only 15 million tons, in a world wheat market which sees production vary as much as 65 million tons in a single year, simply is not realistic.

A substantial majority of the affected countries both agree with these views and understand their importance. But like a jury trying a defendant in a criminal case, a margin of 11 to 1 is not enough. It has to be 12 to 0.

The U.S. negotiators have been reasonable and flexible in the face of what often appears to be intransigence. We will continue to be reasonable, but one might compare our flexibility to that of a rubber band--it can be stretched only so far before it snaps.

Our efforts for the next week and a half will be focused on resolution of these difficult issues. We continue to maintain strong hopes that they can be resolved. If they cannot be resolved, it will not be because we have not tried--and tried mightily. We have negotiated in good faith and we will maintain that position.

But to be completely frank and candid, which I have sought to be with you tonight, we must concede, as indeed we have always done, that there is the possibility that these negotiations will recess without the complete success that we have sought.

In that event, Secretary Bergland has asked me to tell you tonight, he will begin serious consideration of building on the constructive and cooperative relationship that the United States and most of the other major wheat trading countries have achieved during these past two years.

Most countries recognize that cooperation in international wheat marketing is desirable and necessary. Thus, in the event that an international agreement of the type now being sought is not obtainable, we would pursue further cooperative efforts with other major wheat trading countries.

Such an agreement, by its very nature, might not involve sharing the adjustment burden as widely as desired. But it would be far preferable to doing nothing or returning to the anarchy of past years.

You know from the record of the past two years that President Carter and Secretary Bergland are not the kind of public officials who believe in sitting back and doing nothing.

We will, I can tell you with every assurance, do whatever is necessary to assure the achievement of those objectives which all of you share with us--the restoration of better order in the world's wheat trade, and the assurance of a reasonable and predictable return to you for your labor and investment.

That is our commitment and we will stand by it.

Thank you.

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